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# PARTNERSHIP FOR ADVANCING REFORMS IN THE ECONOMY

**YEAR 1 ANNUAL REPORT  
MARCH 5, 2008 – MARCH 5, 2009**

**April 2009**

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**Contract No. 168-C-00-08-00102-00**

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## FOREWORD

This document is the Year 1 Annual Report for the period from March 5, 2008 to March 5 2009 submitted by USAID's PARE project in Bosnia-Herzegovina.

PARE is being implemented by Chemonics International pursuant to contract No. 168-C-00-08-00102-00 that the company has executed with the U.S. Agency for International Development (USAID). This report presents the progress made during the reporting period and provides relevant information regarding the activities completed and accomplishments achieved during Year 1 of the project's operation.

PARE would also like to acknowledge the valuable guidance and support provided by USAID/PARE Contracting Officer's Technical Representative (COTR), Amira Vejzagić-Ramhorst.

Sarajevo,  
April 2009

## LIST OF ACRONYMS

ABRS	Banking Agency of RS
AZOBiH	Insurance Agency of BiH
BCP	Basel Core Principles
BiH	Bosnia and Herzegovina
BLSE	Banja Luka Stock Exchange
BSA	banking supervisory agency
CARDS	Community Assistance for Reconstruction, Development and Stabilization (European Commission)
CBBH	Central Bank of Bosnia-Herzegovina
CMS	Credit Management System
COP	Chief of Party
COTR	Contracting Officer's Technical Representative
DCA	Development Credit Authority
DIA	Deposit Insurance Agency
EC	European Commission
ECB	European Central Bank
EMU	European Monetary Union
EU	European Union
FBA	Banking Agency of FBiH
FBiH	Federation of BiH
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSU	Fiscal Surveillance Unit
IA	Internal Audit
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIF	International Insurance Foundation
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IOSCO	International Organization of Securities Commissions
IRPF	International Real Property Foundation
KRA	key result area
LOP	life of project
LPG	Loan Portfolio Guarantee
M&E	monitoring and evaluation
OECD	Organization for Economic Cooperation and Development
PAC	parliamentary audit committee
PARE	Partnership for Advancing Reforms in the Economy
PIR	project intermediate result
PMP	performance monitoring plan
PMU	project management unit
RS	Republika Srpska
RSNA	Republika Srpska National Assembly
SAA	Stabilization and Association Agreement
SAI	Supreme Audit Institution
SASE	Sarajevo Stock Exchange
UBBH	Banking Association of BiH

## I. EXECUTIVE SUMMARY

### Project Impact

USAID's Partnership for Advancing Reforms in the Economy (PARE) is a two- to four-year activity to assist the government of BiH with its growing, unmet demand for targeted, timely technical assistance in the financial-services sector. This activity is designed to strengthen the regulatory framework for the financial-services sector, improve the financial administration of public resources, and improve the enabling environment for private-sector investment and growth by providing targeted, demand-driven assistance.

USAID's PARE project has achieved significant impact in Year 1, paving the way for successful completion of project objectives across all three components.

However, the emergence of the crisis in BiH's financial sector and the delays in the European Union (EU) accession process both brought increased challenges and broadened the scope of PARE's activities. The project's well-established and cooperative partnership with key partners and stakeholders proved to be an asset in realizing the project's objectives, as counterparts actively used the demand-driven mechanism to seek resolutions to the new challenges they face.

PARE's flexible, demand-driven approach also allowed the project team and its partners to shift priorities and activities according to changing circumstances and relationships with donors. The text box above and bullets below highlight key achievements in PARE's first year.

#### Year 1 Highlights

BiH banking regulators, in partnership with PARE, have adopted a ten-year strategy for implementing international standards for banking supervision (Basel II Framework).

The Deposit Insurance Agency (DIA) Investment Committee, established in 2008 following PARE's recommendations, introduced prudent investment policies to preserve its Reserve Fund before being impacted by the current financial crisis.

Due to the shift in investment policy to sovereign securities and European Monetary Union (EMU) Central Bank deposit facilities, the Reserve Fund remained liquid. The confidence of depositors has been restored.

The leveraging of PARE technical assistance was increased by the global financial crisis, and the team's advice was actively sought by project counterparts.

- A single framework for implementation of the Basel Capital Accords (Basel II) was developed by the banking supervisory agencies (BSAs) and the Central Bank of BiH (CBBH); inter-institutional working groups have been formed to implement it. This development is a crucial part of a comprehensive ten-year strategy following Basel II's three-pillar approach:**
  - Pillar 1 – credit, operational, market, liquidity risk
  - Pillar 2 – banking supervisory capacity development
  - Pillar 3 – market scrutiny and disclosure

The overall reform activities will require legal changes and institutional adjustments to allow for the effective consolidation of banking supervision and the introduction of risk-based banking supervision.
- The soundness of the DIA Reserve Fund was secured, and public confidence in the banking system was restored.** PARE staff advised the DIA to establish an

Investment Committee to advise the Governing Board and help it make investment policy decision. Key investment policy documents were adopted (investment guidelines, investment policy statement) that increased the safety, liquidity, and soundness of the DIA Reserve Fund and incorporated EU best practices. Deposit payout procedures were analyzed and improved.

- **Surveillance over the BiH insurance sector improved** as insurance regulators and supervisors were trained on the core principles of insurance supervision and were introduced to International Association of Insurance Supervisors (IAIS) insurance supervision principles.
- **A four-year road map to effectively communicate audit findings to the public was developed** with the aim of improving financial administration of public resources. Parliamentary audit committees committed to analyzing the auditors' recommendations in a harmonized manner across the country. The supreme audit offices committed to improving their communication strategies with the media and the public.
- **Key basic principles for PACs audit report scrutiny were adopted** by the parliamentary audit committees and auditor generals.
- **Entity real-estate appraisers associations agreed to improve coordination** at the state level and to develop a single curriculum for certification based on EU practices.
- **A memorandum of understanding was signed with the CBBH** to help increase public literacy about financial services and economic practices by developing the financial services educational features on the CBBH website.
- **BiH Development Credit Authority Loan Portfolio Guarantee facility was successfully managed.** The three DCA LPG banks successfully completed Semi-Annual Loan Schedule Reports using USAID' Internet-based Credit Management System.
- **The donor community acknowledged PARE's technical assistance leadership in financial-services sector reforms,** and several multinational and bilateral organizations expressed their intention to coordinate their activities with PARE technical assistance in the future, thereby increasing the synergies and multiplying the impact of USAID's assistance.

## II. MACROECONOMIC ENVIRONMENT IN YEAR 1

*Information on macroeconomic environment provides an overall context for the performance of the financial system and indicates potential sources of instability.*

BiH is a small and open economy and thus very much vulnerable to external imbalances. It is still recovering from the devastating effects of the war and is struggling with a late start in transitioning to a democratic and open market system. Despite remarkable results in some sectors of its economy, its overall growth dynamic puts the country further behind on the EU convergence path as compared to other countries at a similar transition point. The signing of the EU Stabilization and Association Agreement (SAA), in June 2008, was encouraging and was expected to speed up reforms. However, due to political complexities, completion of EU accession requirements in key economic sectors is lagging behind schedule.

BiH is currently facing the daunting task of preparing for EU accession at a time of turmoil in the world economy. The collapse of trade finance and the drying up of capital flows is negatively impacting many emerging market economies, including that of BiH.

<b>Selected Macroeconomic Indicators</b>	<b>2007 (BAM bn)</b>	<b>2008 (BAM bn)</b>
Nominal GDP	21.6	24.6
Inflation (%)	4.9	7.4
Trade Balance	-7.9	-9.6
Coverage Import/Export (%)	42.71	41.22
Current Account Deficit (% of GDP)	12.9	14.6
Foreign Currency Reserves	6.7	6.3
Sovereign Debt	3.9	4.2
<b>Banking Sector</b>		
Total Assets	19.5	20.9
Total Loans (net of reserves)	11.3	14.5
Total Liabilities	19.5	20.9
Citizens' Deposits	5.16	5.21
Total Turnover on Stock Exchanges in BiH	2.0	0.7

*Data provided by CBBH bulletin and staff & Agency for Statistics of BiH*

In 2008, BiH's economic performance was strong on average, but declined in the last quarter due to the global financial and economic developments. The current account deficit has widened and underlying inflation has picked up, while the expansionary fiscal policy has added to these imbalances and weakened the country's competitiveness.

Performance of the banking sector continued the trend of growth until the end of the third quarter, when it came under the pressure created by the global financial crisis. Following a decline of credit growth, the CBBH decided to preserve the liquidity of the banking sector by decreasing required reserves from 18 percent to 14 percent.

In October, the banking sector experienced a deposit crisis when depositors started to withdraw their deposits due to lack of confidence in the banking system's stability, which resulted in the following:



- Total deposits were decreased by KM 800 million from KM 13 billion in September 2008 to KM 12.2 billion at the end of deposit withdrawal crisis in October 2008.
- The decline included a loss of KM 679 million of citizens' deposits. The total volume of citizens' deposits fell from KM 5.82 billion to KM 5.14 billion.
- The deposits have, however, recovered by the end of 2008 to KM 5.21 billion remaining at the level comparable to the end of 2007.

In response to the deposit crisis, the government increased the amount of insured deposits to 20,000 KM, restoring public confidence and decreasing the rate of withdrawals and the currency board arrangement helped maintain financial stability due to the firm peg of the KM to the EUR. The loan service crisis, evident in other emerging economies whose local currencies were significantly depreciated, has been avoided.

Over the coming years, however, BiH's economy still may experience the following effects from the global financial crisis:

- The tightening financial conditions for foreign banks active in the country and the slowing of credit growth could reduce economic growth and external stability.
- The decline in export prices relative to import prices and the decrease of remittances from abroad could pressure the current account and external competitiveness. The reduction of exports is already evident in statistics for the fourth quarter of 2008 and the first months of 2009.

Therefore, it appears to be crucial for the policy makers and institutions to tackle head-on the problems in the financial sector and the overall economy created by the global financial crisis. This sentiment was echoed during the March 13-14, 2009, meeting in London of the G20 ministers and Central Bank governors.

### III. ACHIEVEMENTS BY COMPONENT

As previously noted, the global financial crisis occurred during PARE's Year 1, which impacted the project in the following ways: (1) the crisis added a sense of urgency to implementing PARE-supported reforms and provided the project team an opportunity to introduce the most recent standards and models emerging from the crises; (2) the crisis justified the key reform objectives established under PARE, notably the consolidation of banking supervision; and (3) the crisis provided an excellent reason to implement financial-services sector reforms, despite concerns that such reforms may be blocked or watered down by current political obstructions.

#### PIR 1: Regulatory System for Financial Services Sector Strengthened

##### Banking Supervision and Central Bank of BiH

*A single strategy for implementation of the International Convergence of Capital Measurement and Capital Standards (Basel II) was developed by the BSAs and the CBBH.*

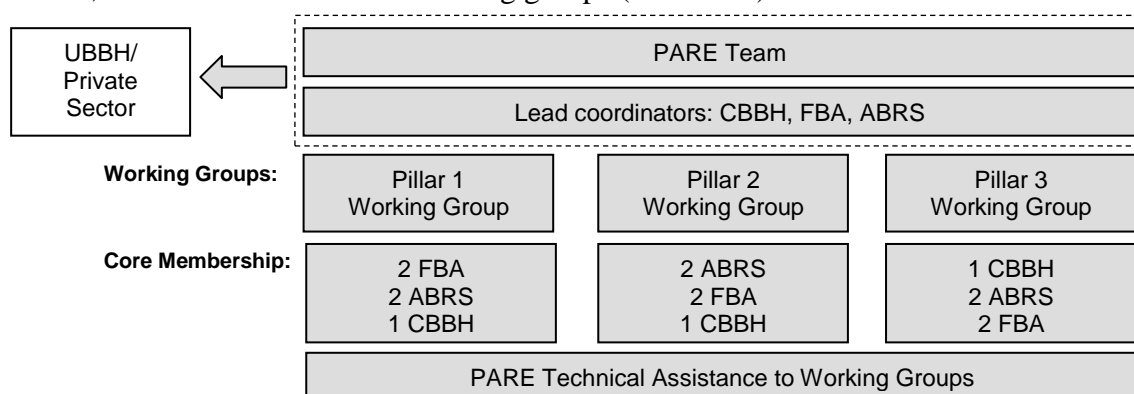
The project made a significant impact in providing technical assistance to the BSAs and the CBBH to ensure the stability of BiH's financial system by increasing banking supervision coordination and by developing a stronger, risk-based supervisory system. This enhanced stability will be fully achieved through implementation of and compliance with the Basel Core Principles (Basel I and II), ECB, FSF, FSAP and CARDS recommendations, which will bring the banking agencies in line with EU standards and regulations.

##### Objective

Achieve compliance with international principles (Basel II, FSF, IOSCO, FSAP, EU Directives) and implement ECB and OECD recommendations to achieve alignment with international and EU standards and best practices. Contribute to effective consolidation of banking supervision at the state level.

PARE took the lead in the development of the customized framework for implementing the International Convergence of Capital Measurement and Capital Standards in BiH (Basel II Framework for BiH). Project staff worked in active partnership with the BSAs and CBBH (the DIA and AZOBiH were involved as well) to develop the country strategy, form intra-agency working groups, and develop action plans and a timeline for the implementation of the Basel II Framework in BiH.

On February 26, 2009, PARE staff conducted a meeting with counterparts to present the final version of the Basel II strategic framework, overall implementation plan for Basel II in BiH, and the structure of the working groups (see below):



The meeting gave participants an opportunity to discuss and agree upon a single strategy for implementing the Basel II Framework in BiH. Additionally, participants discussed challenges and procedural issues related to the proposed timeline as well as recommendations for strategy implementation.

In addition to work with the CBBH related to Basel II implementation, PARE staff worked with the CBBH to increase its compliance with European Central Bank (ECB) recommendations and to secure counterpart buy-in for assistance in the following:

- Improving banking supervision coordination;
- Strengthening CBBH's Financial Stability Unit (FSU);
- Promoting collaboration among key financial-sector institutions to review the FSU's findings and make future-oriented policy decisions for the sector; and
- Improving the CBBH's capacity to collect, analyze, and disseminate financial data in line with ECB requirements.

PARE took an active role in the CBBH Coordination Committee and worked with the CBBH to strengthen its coordinating role in the financial system in BiH. The Committee was identified as a logical place to implement these activities until an adequate institutional structure aligned with EU requirements is established.



The meeting was attended by senior representatives of the BSAs, the CBBH, other key institutions in the financial sector, as well as the Basel II technical teams from the BSAs and CBBH.

CBBH was recognized as an important partner due to its critical role in maintaining stability, mitigating risks in the financial sector, and coordinating banking supervision.

## Deposit Insurance Agency

*The DIA Investment Committee was established to increase the Governing Board's capacity to make effective investment management decisions. Following PARE's recommendations, the DIA Reserve Fund investment policy and guidelines were improved, thereby preserving the Fund's liquidity and restoring the public confidence.*

PARE's technical assistance yielded a significant impact and led to the development and implementation of a strong policy framework for the DIA's investment management activities, which resulted in strengthened investment management and decision-making capabilities, a sustainable and liquid DIA Reserve Fund, and improved deposit payout procedures.

### Objective

Help the DIA revise its investment policy and guidelines to incorporate EU member states' practices and to update the model for eligible insured deposit thresholds.

As a result of the project's technical assistance, the DIA achieved the following accomplishments.

- The DIA Reserve Fund was restructured to follow improved investment guidelines: 81 percent of the portfolio was invested into cash, sovereign and covered bonds (up from 66 percent), while 19 percent remained in a higher risk bracket (down from 33 percent). Overall, as of February 28, 2009, 96 percent of the portfolio was liquid.<sup>1</sup>
- The DIA Investment Committee was established as a specialized body (attached to the agency's board) with the mission to improve the DIA's capacity to analyze current market conditions, prepare investment briefings for the DIA's board, and make effective investment decisions. The Committee consists of investment management professionals from the CBBH, BSAs, and the DIA and meets regularly.
- New and improved investment guidelines were adopted that increase the safety, liquidity, and soundness of the DIA Reserve Fund. The DIA was allowed to invest the Reserve Fund's assets in the EMU Central Banks' deposit facilities via the CBBH.
- A comprehensive, robust, yet flexible DIA Investment Policy Statement was drafted that follows corporate governance standards and principles.
- DIA's portfolio management agreement and custodian contracts were reviewed to preserve the best interest of the DIA and its Reserve Fund.
- Improvements to the DIA's insured deposit payout procedures were recommended to streamline the DIA's role in case of bank liquidation.

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<sup>1</sup> DB Advisors Report\_03.09, provided at the DIA Reserve Fund Review Meeting on 24 Mar 2009 - available to USAID upon request

## Insurance Supervision

*International Association of Insurance Supervisors (IAIS) Core Principles and the fundamentals of risk-based supervision and solvency surveillance were introduced to insurance supervisors.*

At a four-day seminar on Global Standards of Insurance Supervision, PARE staff presented the IAIS Insurance Core Principles and Methodology and the IAIS Self-Assessment framework to BiH insurance supervisors. The Self-Assessment is viewed as a pre-requisite to the Financial Sector Assessment Program (FSAP), and its goal is to assess the strengths and weaknesses of a country's insurance supervision on the basis of the 28 IAIS Core Principles (which allows comparison among member countries). The insurance supervisors in BiH are expected to begin the implementation process in 2009.

### Objective

Help bring the insurance sector closer to effective consolidation and the insurance supervision agencies to become independent regulators thereby moving BiH closer to a single economic space.

Seminar participants discussed the global standards for insurance supervision, coordination, risk-based supervision, solvency monitoring, and market conduct surveillance. The training emphasized the IAIS Solvency Standards and described two approaches: the European Approach (Solvency I), which assumes relative economic stability and employs diverse accounting models, strict investment rules/control, and limited appetite for risk; and the Revised European Approach (Solvency II), which assumes



PARE organized a four-day seminar on Global Standards of Insurance Supervision for the insurance supervisors and regulators in BiH as well as for representatives of insurance companies operating in the country.

growing cross-border operations, increasingly competitive markets, and the emergence of financial groups, and uses International Financial Reporting Standards.

PARE staff also participated in the EU-sponsored Regional Conference of Insurance Supervisors held on September 29, 2008 and hosted in Sarajevo by the Insurance Agency of BiH. The project team delivered two presentations entitled: (1) "Solvency Regimes: International Comparison," and (2) "The Globalization of Risk." Participation at the regional conference was part of PARE's intervention in the insurance sector in cooperation with the EU's Twinning Light Project, "Support to the Insurance Agency of Bosnia-Herzegovina." Through this activity, PARE also achieved synergies with the EC Mission in BiH's technical assistance to insurance supervisors under the upcoming Instrument for Pre-Accession Assistance (IPA) 2007 framework for BiH.

## Factoring

*Potential counterparts were identified and a strategy to develop a regulatory framework and strengthen professional associations was begun.*

In Year 1, PARE assessed the level of development of the factoring sector in BiH. This assessment was part of the larger ongoing activity to produce the life-of-project strategy for the sector, to identify potential counterparts, to increase awareness and understanding of factoring products and services, and to help counterparts develop a regulatory framework for factoring.

### Objective

Develop a regulatory framework, establish and strengthen professional associations, and increase the government and private sector's awareness and understanding of the advantage of products and services in this sector.

This activity will continue in Year 2, when counterparts' commitment will be secured and the strategy for developing a regulatory framework will be completed.

PARE identified several relevant counterparts and is currently working to secure their commitment to cooperate with the project. PARE staff also worked to raise awareness in the BiH business community about the benefits of factoring products and services.

## Private Pension Funds

*Life-of-project strategy to develop a regulatory framework for private pension funds and provide technical assistance for public information campaign was developed.*

PARE's assistance is focused on the regulatory environment of private pension funds. The project's life-of-project (LOP) strategy was developed, and commitments of the entity-level Pension System Reforms Working Groups and private pension fund supervisors were obtained.

### Objective

Strengthen regulatory environment to foster the development of private pension funds.

The project's LOP strategy took into account the current status of pension reform, stakeholder analysis, key institutions, groups, and participants in the reform process. It proposes the development of harmonized by-laws and a public information communication campaign and focuses on the following issues:

- Creating a supervisory framework (rulebooks, procedures, forms, and practices for the supervision of the private pension insurance funds);
- Building the capacity of supervisory and regulatory institutions;
- Preparing training and certification/accreditation for private pension insurance fund managers and brokers;
- Preparing a public information campaign on pension reform and providing technical assistance during campaign preparation; and
- Supporting the activities of the pension reform commissions of the Federation of Bosnia-Herzegovina (FBiH) and the Republika Srpska (RS).



## PIR 2: Financial Administration of Public Resources Improved

### Parliamentary Oversight for Public-Sector Audits Enhanced

*A four-year roadmap to strengthen the administration of public resources was prepared.*

The roadmap contains five major crosscutting activity streams:

- Improve parliamentary oversight of public sector audits;
- Improve public awareness of audit findings;
- Establish and/or strengthen internal controls and internal audit capability within ministries and/or state-owned enterprises;
- Strengthen capacity in systemic accountability; and
- Establish the performance auditing capability in the supreme audit institutions (SAIs) and internal audit (IA).

#### Objective

Establish parliamentary audit committees and build their capacity to analyze and act upon recommendations of audit offices.

In Year 1, PARE staff extended technical assistance to the Parliamentary Audit Committees (PACs) overseeing public-sector audits and obtained their commitment to analyze and act upon the audit offices' findings in a harmonized manner (i.e., based on a single set of legislation). These legislative documents include the book of rules, guidelines, and procedures.

PARE hosted a workshop for the PACs and auditor general officers entitled "Parliamentary Committee Procedures for Considering Audit Reports."



"The workshop gave us a better insight into the functioning of PACs."

— Ms. Majkic, Head of the House of People Committee for Budget and Finance

"...A great opportunity to exchange mutual problems and achievements of each PAC."

— Ms. Habul, Head of the Joint Federation Audit Committee

This workshop provided participants from all parliamentary audit and budget and finance committees, and SAIs the opportunity to get acquainted and become aware of parliamentary committees' current practices for considering audit reports. It also enabled participants to share their experiences of report scrutiny processes and to discuss the challenges remaining concerning improving audit processes at different levels of government in BiH.

During the workshop, PARE consultants discussed levels of development as well as key principles of standardized audit committee rules/procedures, aiming to increase convergence within the country and with international standards and best practices.

### **Public Awareness of Audit Findings**

There is near universal agreement that the public is unaware of the results of public audit activities. More importantly, neither the media nor the public seems to understand the importance of paying attention to audit results, and therefore cannot play its role in holding the government accountable, which is necessary for a functioning democratic state. As a result, project staff started work on an intervention that begins with a workshop to assess investigative journalists' understanding of the SAIs' role and basic audit processes as well as their capacity to communicate audit findings effectively.

#### **Objective**

Improve the Supreme Audit Institution offices' capacity to communicate audit findings more effectively.



### PIR 3: Enabling Environment for Private Sector Investment Improved

*PARE addressed the importance of strengthening financial professional associations and effective financial intermediation for business- and investment-oriented environment in the country.*

The enabling environment component is cross-cutting with the other project components in the areas of establishing rules, regulations, and oversight in line with EU requirements. Most of the technical assistance extended to counterparts in Component 1 positively impacted the enabling environment component. Similarly, the assistance to professional associations of appraisers adds value to Component 1's reform efforts.

#### Objective

Develop modern and effective financial intermediation and strengthen associations of financial professionals.

#### Appraising

PARE identified a growing interest of BiH business associations (appraisers, court experts, actuaries) to introduce professional standards and establish a professional code. It proved to be an important element of realizing overall reforms in the financial sector. The project's counterparts expressed their commitment to the project's technical assistance including four letters of commitment from entity-level associations of court appraisers and accountants. The demand for technical assistance included, inter alia, (i) request to strengthen coordination of entity-level court appraisers and, (ii) develop a curriculum to certify professionals according to international appraiser's standards.

## Other Program Activities

### Memorandum of Understanding between USAID/PARE and CBBH

Due to the importance of increasing public knowledge about financial-services sector products and services, PARE has agreed to develop educational features of the CBBH's website covering capital markets, leasing, and factoring. USAID/BiH and the CBBH signed a memorandum of understanding (MoU) to develop these educational services. The MoU was signed during the official signing ceremony on December 18, 2008.



Mr. Gregg Wiitala, head of USAID/BiH's Economic Restructuring Office, and Mr. Kemal Kozarić, governor of the CBBH, sign the memorandum of understanding.

### PARE's Website

PARE staff worked on developing the project website, an essential component of its communications activities. The website will serve as a primary channel for disseminating information about project activities and other information relevant to the stakeholders in BiH.

### PARE's Participation at Select Events

- Banja Luka Stock Exchange III International Conference, May 15–16, 2008.
- Crans Montana Forum in Sarajevo, October 7–10, 2008.
- Sarajevo Stock Exchange International Conference, October 22-23, 2008.
- LOK Institute for Organizations and Economics Seminar in Sarajevo on Basel II - Capital and Risk Management in Global Financial Crisis, Feb 24-25, 2009



PARE's chief of party participated at the plenary session of the Crans Montana Forum in Sarajevo.

## **IV. USAID DEVELOPMENT CREDIT AUTHORITY (DCA) LOAN PORTFOLIO GUARANTEE (LPG) FACILITY**

PARE assumed the management of the LPG DCA portfolio from the previous implementers, USAID/CCA and USAID/LAMP, as of August 1, 2008.

During the reporting period, three Requests for Payment of Claim, submitted by the DCA LPG partner banks (UPI/Intesa Sanpaolo Bank BiH and Volksbank BiH), were analyzed and memorandum on the approvability of these requests — with evaluations of the bank's qualification for these claims under the Guarantee Agreement (Section 4.4) — were prepared and delivered to USAID as follows:

- September 26, 2008 for the company Posavlje Prom from Šamac. The claim amount of the two defaulted loans at UPI/Intesa Sanpaolo Bank BiH was KM 60,000.
- November 3, 2008 for the company Bovel d.o.o. from Ljubinje. The claim amount of the defaulted loan at the Volksbank BiH was KM 107,364.59.
- November 28, 2008 for the cooperative Opšta Zemljoradnička Zadruga Bukovac-Miljkovac from Doboj. The claim amount of defaulted loan at the Volksbank BiH was KM 118,583.28.

The UPI/Intesa Sanpaolo Bank's Request for Payment of Claim against the BiH DCA LPG facility was not approved, since it was found that the two loans approved and disbursed to the company Posavlje Prom did not fulfill the definition of a Qualifying Loan, as defined in the Guarantee Agreement. Consequently, these two loans were excluded from the UPI/Intesa Sanpaolo Bank's DCA LPG portfolio.

The Volksbank's Requests for Payment of Claim against the BiH DCA LPG facility were approved and a claim amount of KM 107,364.59 for company Bovel was collected on January 27, 2009. Still pending is the claim for KM 118,583.28 for the cooperative Bukovac-Miljkovac from Doboj.

The following DCA activities/requirements were realized within the stated reporting period:

- Semi-Annual Loan Schedule Reports (period April-September 2008) were completed through USAID's Internet-based Credit Management System by the three BH DCA LPG partner banks.
- Certifications for Net Recoveries and the Schedules of Net Recoveries for Claims paid by USAID were accomplished, signed, and submitted to USAID/Washington, Office of Development Credit, by UPI/Intesa Sanpaolo Bank BiH and Volksbank BiH. Both banks certified that there were no recoveries received subsequent to the claims being paid by USAID.
- DCA Checklist Forms on DCA Portfolio Environmental Changes and Environmental Policy Changes dated October 2008 and January 2009 were fulfilled with Zagrebačka/UniCredit Bank and submitted to USAID. There were no changes reported within the stated environmental issues.
- The USAID Office of Development Credit survey on the impact of the global recession to the DCA partner banks' credit portfolios was completed by the three BH DCA LPG banks. The purpose of the survey for the Office was to understand the

impact of the financial crisis on the DCA banks' operations and how the Office can better assist with the DCA credit guarantee instrument.

The status of the DCA LPG facility in Bosnia-Herzegovina, with summarized data for DCA LPG partner banks in BiH, is presented below:

	TOTAL	(%)	UPI / Intesa Sanpaolo Bank BiH	Volksbank BiH	Zagrebačka / UniCredit Bank	
<b>Guarantees</b>						
Number			168-03-001	168-03-003	168-03-002	168-06-005
Start Date			2003/07/08	2003/08/07	2003/08/27	2006/09/30
End Date			2010/07/08	2010/08/07	2010/08/27	2016/09/29
<b>Portfolio (# loans)</b>						
<b># Allowed Loans</b>	<b>196</b>		<b>82</b>	<b>39</b>	<b>52</b>	<b>23</b>
Agriculture	116	59%	43	27	36	10
Wood industry	64	33%	39	11	6	8
Tourism	16	8%	-	1	10	5
<b># Loans subject to claims</b>	<b>13</b>	<b>7%</b>	<b>9</b>	<b>3</b>	<b>1</b>	<b>-</b>
<b>Loans</b>						<b>(US \$ million)</b>
<b>Approved</b>	<b>47</b>		<b>10</b>	<b>12</b>	<b>9</b>	<b>16</b>
Used	29,85	64%	7,62	10,56	8,71	2,96
Available	13,04	28%	-	-	-	13,04
Expired	4,11	9%	2,38	1,44	0,29	-
<b>Ending Balance as of 2008/09/30</b>	<b>9,84</b>		<b>-</b>	<b>5,86</b>	<b>2,45</b>	<b>1,53</b>
<b>Claims</b>						<b>(US \$ million)</b>
<b>Total</b>	<b>1,37</b>		<b>0,96</b>	<b>0,29</b>	<b>0,12</b>	<b>-</b>
Paid	1,29	94%	0,96	0,21	0,12	-
Pending	0,08	6%	-	0,08	-	-

## V. CONSOLIDATED PERFORMANCE MANAGEMENT REPORT

Based on the Project's objectives, strategic approach, experiences, and counterparts' communicated demands/needs in the Year 1, PARE's original performance monitoring plan (PMP) was revised and thirty one life-of-project (LOP) indicators were replaced by the improved eighteen indicators.

The PMP consists of six elements from the USG Foreign Assistance Standardized Program Structure — the "F Framework" indicators — and twelve life-of-project (LOP) indicators that track the project's progress and results by:

- Capturing and communicating project outputs, results, and their impact;
- Tracking the implementation progress of the project activities and goals;
- Supplying information on USAID/PARE's technical assistance activities;
- Contributing to USAID's own performance management and reporting needs (the F Framework indicators); and
- Streamlining monitoring and evaluation activities.

PARE's first 12 months of activities, performance, and progress were measured using the PMP plan. A summary of the project's activities and results is included below.

## Summary of Indicators

### USG Foreign Assistance Standardized Program Structure Element - the "F Framework"

Indicator	Y1 Target	Y1 Result	Y1 Rate	LOP Target	LOP Rate
Number of financial-sector supervisors trained with USG assistance	82	82	100%	552	15%
Number of financial-sector professionals trained on international standards this year with USG assistance	6	6	100%	328	2%
Number of internationally recognized financial-sector standards adopted as a result of USG assistance	1	1	100%	17	6%
Number of national legislators and national legislative staff attending USG-sponsored training or educational events	15	15	100%	149	10%
Number of mechanisms for external oversight of public resources supported by USG assistance and implemented	4	4	100%	24	17%

### Performance Monitoring

Indicator	Y1 Target	Y1 Result	Y1 Rate	LOP Target	LOP Rate
Level of counterpart satisfaction with the quality of the technical assistance and of deliverables	4	4.91	123%	4	123%
Progress toward banking supervision framework that promotes effective consolidation at the state level	2	2	100%	6	33%
Percentage of inspections and directives issued that are compliant with current laws	100%	100%	100%	100%	100%
Progress toward reform of targeted leasing and factoring policy or regulation	1	1	100%	7	14%
Number of steps achieved toward a revised DIA investment strategy that incorporates EU best practices	5	6	120%	7	86%
Number of media and public awareness events about SAIs' reports, audit findings, recommendations, and proceedings held	26	32	123%	140	19%

## VI. ADMINISTRATION AND PROJECT MANAGEMENT

To suit its demand-driven approach and broad scope of work, PARE has a small core team of long-term technical staff whose broad skills in financial services make them adaptable enough to cover the technical scope of the project and who are divided between the Sarajevo and Banja Luka offices to facilitate communication and build relationships with counterparts and partners across the two entities. This core team is complemented by short-term technical assistance from both local and international specialists, who provide a range of specific technical expertise in a targeted and cost-efficient manner. The technical team is supported by an experienced local administrative team and a project management unit (PMU) in Chemonics' home office. The organizational chart (see next page) shows the structure of PARE's long-term team.

The chief of party, Berina Selimović-Mehmedbašić, manages overall implementation of project activities, relationship-building with counterparts, and the monitoring of project results. Each technical team leader is assigned to a specific component to ensure accountability and constancy for each results area. Dario Vinš is responsible for Component 1. Marijana P. Milić leads Component 2. Mišel Pavlica takes a lead on Component 3 but is actively supported by the other component leaders as this component is largely cross-cutting. During the first year, the project identified the need to expand the technical team to include a legal regulatory expert who will work with the team leaders to implement legal-reform activities in all three components. In addition, Muhiba Adanalić, the Development Credit Authority/monitoring and evaluation specialist, manages USAID's Development Credit Authority portfolio and works with the technical team to monitor project performance against specific targets.

An experienced administrative staff, divided between the two project offices, supports the technical team and short-term consultants. Jasenka Ćorić, the office manager and accountant, oversees the operations of this team and ensures the smooth functioning of the project. The administrative staff is responsible for the project's administrative, logistical, accounting, and compliance functions. In addition, they coordinate project communications, training and event logistics, and local subcontracting. In Year 2, the communication needs and the volume of trainings and other events will increase substantially, resulting in the need to designate one member of the support team, Amra Softić, to focus primarily on these types of activities.

The project is backstopped by the home-office PMU, which assists with recruiting and fielding short-term specialists, budgeting, technical/contractual reporting, contract compliance, and administrative and technical support. The PMU provides support to the field to navigate USAID regulations and comply with reporting expectations.

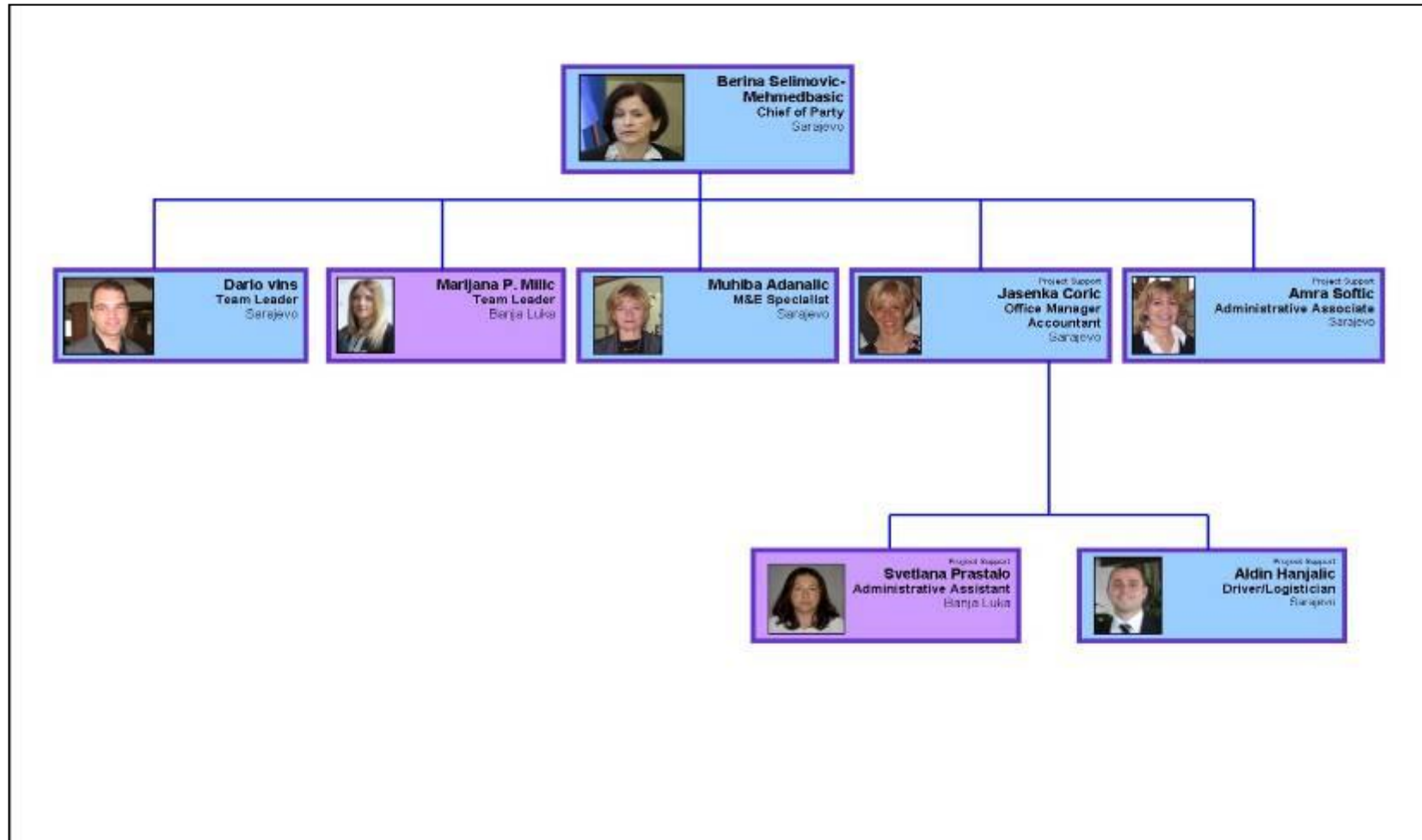
With PARE's broad scope and the small core technical team, short-term consultants are important resources. These consultants must provide exceptional assistance to complement the senior profile of the counterparts in our partner organizations and the high level of sophistication in BiH's financial sector. To provide consistency, in some cases, PARE has identified expatriate and local short-term consultants that can provide regular, intermittent technical assistance in their relevant areas of expertise. This intermittent but regular support from a variety of experts will supplement the project's ability to manage relationships with counterparts and will maintain the momentum necessary to achieve results in an extremely broad range of financial services technical areas. The project also

maintains a roster of highly qualified local and expatriate consultants that can provide one-time technical assistance in an extensive range of technical areas.

All administrative activities were completed on schedule during the first year of the PARE project. The first quarter was taken up by a number of important start-up activities, including hiring staff, setting up office space, acquiring equipment, initiating contacts with major counterparts to obtain input regarding the needs of project partners, holding the project planning workshop, and executing major subcontracts.



## PROJECT TEAM



## **VII. ANNEXES**

Annex 1 – Detailed PMP

Annex 2 – List of Counterparts

Annex 3 – Case Studies

## **ANNEX 1 – DETAILED PMP REPORT**

## ANNEX 1 – DETAILED PMP REPORT

Indicator Number and Category	Unit	Baseline	Disaggregate by	Y1 Target	Y1 Result	Y1 Rate	LOP Target
<b>1</b> Number of internationally recognized financial sector standards adopted as a result of USG assistance (F Indicator 3)	Number	0	Standards	1	1	100%	17
			BCP/ECB	1	1		9
			IOSCO	0			4
			OECD	0			4
<b>2</b> Level of counterpart satisfaction with the quality of the technical assistance and of deliverables (qualitative 1-5 on satisfaction)	Number	n/a	Counterparts	4	4,91	123%	4
<b>PIR 1- Regulatory System for the financial services sector strengthened</b>							
<b>3</b> Number of financial sector supervisors trained with USG assistance (F Indicator1)	Number	0	Counterparts, Gender	82	82	100%	552
			Male	42	42		
			Female	40	40		
<b>KRA 1.1 - Banking supervision improved</b>							
<b>4</b> <i>Progress toward banking supervision framework that promotes effective consolidation at the State level (milestones): (1) assessment, (2) strategy draft/proposal, (3) action plan approval/adoption, (4) working group(s) established, (5) implementation plan made, (6) implementation stage</i>	Status	0	None	2	2	100%	6

KRA 1.2 - Insurance Supervision Improved								
5	Percentage of inspections and directives issued that are compliant with current laws	Percentage	0	Entity	100%	100%	100%	100%
6	Progress toward IAIS-based insurance supervision framework that contributes to consolidation of economic space for the insurance sector (milestones: (1) IAIS self-assessment, (2) strategy draft/proposal, (3) action plan approval/adoption, (4) working group(s) established, (5) implementation plan made, (6) implementation stage)	Status	0	None	0	0	n/a	6
KRA 1.3 - Capital Market's surveillance capacity and compliance with standards improved								
7	Progress toward establishing a fixed income securities market with appropriate supervision and oversight (milestones: (1) assessment, (2) strategy draft/proposal, (3) action plan approval/adoption; (4) working group(s) established, (5) implementation plan made, (6) implementation stage)	Status	0	None	0	0	n/a	6
KRA 1.4 - Leasing and factoring regulation and oversight improved								
8	Progress toward reform of targeted policy or regulation (milestones): (1) assessment, (2) counterparts identified and committed, (3) strategy draft/proposal, (4) action plan approval/adoption, (5) working group(s) established,(6) implementation plan made, (7) implementation stage)	Status	0	None	1	1	100%	7
KRA 1.5 - Deposit Insurance Agency's investment strategy, deposit threshold model and deposit premiums improved								
9	Number of steps achieved toward a revised DIA investment strategy that incorporates EU best practices (1) Investment Guidelines improved; 2) Investment Policy Statement developed; 3) Investment Committee established; 4) Investment Reports improved; 5) Portfolio Management Procedures improved; 6) Insured Deposit Claims Payout Procedures improved; 7) Implementation follow up)	Number	0	None	5	6	120%	7
10	Updated model regarding eligible deposit threshold incorporating considerations of EU standards developed and implemented (yes/no)	Yes/no	0	None	0	0	n/a	1

KRA 1.6 - Private pension fund development fostered								
11	Number of by-laws (rulebooks, guidelines, etc) developed with project assistance	Number	0	Entity	0	0	n/a	8
				FBiH				4
				RS				4
KRA 1.7 - Central Bank alignment with EU best practices improved								
Please see indicator 1 (F Indicator 3)								
PIR 2 - Financial administration of public resources improved								
12	Number of national executive oversight actions taken by legislature receiving USG assistance (F Indicator 5)	Number	0	State and Entity Parliaments	0	0	n/a	241
KRA 2.1 Parliamentary oversight of public sector audits improved								
13	Number of mechanisms for external oversight of public resource use supported by USG assistance implemented (F Indicator 6)	Number	0	State and Entity Parliaments	4	4	100%	24
				Key Principles Adopted	4	4		
				Book of Rules Developed				
				Book of Rules Adopted				
				Guidelines Developed				
				Guidelines Adopted				
				Procedures Developed				
				Procedures Adopted				

KRA 2.2 Public awareness of audit findings improved								
14	Number of media and public awareness events about Supreme Audit Institutions' reports, audit findings, recommendations and proceedings held	Number	8	State and Entity	26	32	123%	140
			1,66	SAI BIH	2	1		20
			3,00	SAI FBiH	4	5		28
			18,33	SAI RS	20	26		92
KRA 2.3 Pilot internal controls and audit units established								
15	Number of pilot internal audit departments established in governments and/or public enterprises	Number	0	Governments and Public Enterprises	0	0	n/a	3
PIR 3 - Enabling environment for private sector investment improved								
Please see indicator 18 (F Indicator 2)								
KRA -3.1 Legal Framework for financial services enabling environment strengthened								
Please see indicator 8 (Cross-cutting KRA 1.4)								
KRA 3.2 Capacity of financial services professional associations enhanced								
16	Number of certification programs for financial sector professionals offered by professional as a result of project assistance	Number	0	None	0	0	n/a	3
CROSS CUTTING								
17	Number of national legislators and national legislative staff attending USG sponsored training or educational events (F Indicator 4)	Number	0	Gender	15	15	100%	149
				Male	7	7		
				Female	8	8		
18	Number of financial sector professionals trained on international standards this year with USG assistance (F Indicator 2)	Number		Gender	6	6	100%	328
				Male	2	2		
		Number		Female	4	4		

**Indicator 1 (F Indicator 3):** Number of Internationally recognized financial sector standards<sup>2</sup> adopted as a result of USG assistance

**Results Summary**

Y 1 Result	1	Y1 Target	1	LOP Target	17
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FSF #2 (2.1) *The Basel II framework needs timely implementation*; FSF #5 (5.5, 5.8) *Authorities' exchange of information and cooperation in the development of good practices should be improved at national and international levels*; ECB/CARDS #4: *Better Information Exchange* – in year one the BSAs and CBBH have developed a single framework for implementation of international agreement of capital measurement and standards (Basel II) and the Memorandum on Principles of Coordination of Banking Supervision and Cooperation and Exchange of Data and Information was signed.

**Indicator 2:** Level of counterpart satisfaction with the quality of the technical assistance and of deliverables (satisfaction is rates from 1-5)

**Results Summary**

Y1 Result	4.91 <sup>3</sup>	Y1 Target	4	LOP Target	4
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Indicator on counterpart satisfaction was calculated using submitted letters/evaluations:

- Letters of satisfaction from DIA dated June 11, 2008 and July 29, 2008 (Qualitative indicator = 5).
- Joint letter of satisfaction from the FBiH and RS banking agencies dated June 16, 2008 (Qualitative indicator = 5)
- Evaluation of the Seminar on Global Standards for Insurance Supervision dated October 9, 2008 (Qualitative indicator = 4.49)
- Feedback regarding satisfaction and appreciation of the counterparts (Basel II Framework for BiH development), recorded at the exit meeting held on November 24, 2008 (Qualitative indicator = 5)
- Letter of satisfaction from CBBH dated January 22, 2009 (Qualitative indicator = 5)

**Indicator 3 (F Indicator 1):** Number of financial-sector supervisors trained with USG assistance

**Results Summary**

Y 1 Result	82	Y1 Target	82	LOP Target	552
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82 supervisors attended workshops on developing and implementing the Basel II Framework for BiH, global standards for insurance supervision, and DIA Reserve Fund management and deposit payout procedures.

Participants included 42 men and 40 women from the following agencies:

- 32 from entity BSAs,
- 19 from state/entity insurance supervision agencies,
- 4 from entity protection funds,
- 17 from the DIA, and
- 10 from the CBBH

<sup>2</sup> BCP/ECB recommendations, IOSCO and OECD principles/standards adopted by CBBH, entity banking supervision agencies, securities commissions, and stock exchanges.

<sup>3</sup>  $5+5+5+4.49+5+5=29.49 / 6 = 4.91$



**Indicator 4:** Progress<sup>4</sup> toward banking supervision framework that promotes effective consolidation at the State level

**Results Summary**

Y1 Result	2	Y1 Target	2	LOP Target	6
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Assessment (milestone 1) of Banking Supervision compliance with Basel Capital Accords was completed in June 2008.

Strategy (milestone 2) for implementation of (Basel II) was adopted by the BSAs in December 2008 and February 2009.

**Indicator 5:** Percentage of inspections and directives issued that are compliant with current laws.

**Results Summary**

Y1 Result	100%	Y1 Target	100%	LOP Target	100%
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Insurance Agency of RS conducted 15 off-site and 43 on-site inspections.

Insurance Agency of FBiH conducted 32 off-site and 19 on-site inspections.

All inspections were compliant with the current law in each entity.

**Indicator 8<sup>5</sup>:** Progress toward reform of Leasing and Factoring policy or regulation

**Results Summary**

Y1 Result	1	Y1 Target	1	LOP Target	7
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Commentary assessing the level of development of the factoring sector in BiH was completed in Q4.

**Indicator 9:** Number of steps<sup>6</sup> achieved towards a revised DIA investment strategy that incorporates EU best practices

**Results Summary**

Y1 Result	6	Y1 Target	5	LOP Target	7
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The following documents were developed and activities were completed:

- Investment Guidelines improved
- Investment Policy Statement developed
- Investment Committee established
- Investment Reports improved
- Portfolio Management and Custodian Agreements improved
- Insured deposit claims payout procedures improved

<sup>4</sup> Progress is measured by the following milestones: (1) assessment, (2) strategy draft/proposal, (3) action plan approval/adoption, (4) working group(s) established, (5) implementation plan created, and (6) implementation stage.

<sup>5</sup> Progress is measured by the following milestones: (1) assessment, (2) counterparts identified and committed, (3) strategy draft/proposal, (4) action plan approval/adoption, (5) working group(s) established, (6) implementation plan created, and (7) implementation stage.

<sup>6</sup> Progress is measured by the following milestones: (1) Investment Guidelines improved, (2) Investment Policy Statement developed, (3) Investment Committee established, (4) Investment Reports improved, (5) Portfolio Management Procedures improved, (6) Insured Deposit Claims Payout Procedures improved, and (7) Implementation Follow Up.

**Indicator 13 (F Indicator 6):** Number of mechanisms for external oversight of public resource use supported by USG assistance implemented

**Results Summary**

Y 1 Result	4	Y1 Target	4	LOP Target	24
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4 state and entity PACs adopted the Key Principles of Audit Report Scrutiny

**Indicator 14:** Number of media and public awareness events<sup>7</sup> about Parliamentary Committees' review of audit reports proceedings and recommendations.

**Results Summary**

Y1 Result	32	Y1 Target	26	LOP Target	140
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State and entity level SAIs conducted 32 media and public awareness events:

- SAI BiH conducted 1
- FBiH SAI conducted 5
- RS SAI conducted 26

**Indicator 17 (F Indicator 4):** Number of national legislators and national legislative staff<sup>8</sup> attending USG sponsored training or educational events

**Results Summary**

Y 1 Result	15	Y1 Target	15	LOP Target	149
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15 legislators and legislative staff attended workshops on global standards for insurance supervision and parliamentary committee procedures for considering audit reports.

The participants included 7 men and 8 women from the following institutions:

- 12 representatives from state and entity-level PACs and
- 3 representatives from the Ministry of Finance

<sup>7</sup> Events include press conferences; interviews given by the director, auditors general, and deputies; media roundtables; and workshops.

<sup>8</sup> State and entity-level parliament audit committees and ministries of finance.

## ANNEX 2 – LIST OF COUNTERPARTS

### PIR 1: Regulatory System for Financial Services Sector Strengthened

#### KRA 1.1: Banking supervision improved

Institution	Town	Address	Tel/Fax	Web site
<b>Banking Agency of the Federation of Bosnia and Herzegovina</b> Agencija za bankarstvo Federacije Bosne i Hercegovine (FBA)	Sarajevo	Koševo 3	033 721 400	www.fba.ba
<b>Banking Agency of the Republic of Srpska</b> Agencija za bankarstvo Republike Srpske (ABRS)	Banja Luka	Vase Pelagića 11 A	051 218 111 051 216 665	www.abrs.ba

#### KRA 1.2: Insurance supervision improved

Institution	Town	Address	Tel/Fax	Web site
<b>Insurance Agency of Bosnia and Herzegovina</b> Agencija za osiguranje u Bosni i Hercegovini	Sarajevo	Obala Kulina Bana 4/II	033 554 795 033 554 796	www.azobih.gov.ba
<b>Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina</b> Agencija za nadzor osiguranja Federacije Bosne i Hercegovine	Sarajevo	Dolina 8/II	033 443 292 033 443 318	www.nados.ba
<b>Insurance Agency of the Republic of Srpska</b> Agencija za osiguranje Republike Srpske	Banja Luka	Bana Milosavljevića 8/II	051 228 910 051 228 920	www.azors.org
<b>Protection Fund of the Federation of Bosnia and Herzegovina</b> Zaštitni Fond Federacije Bosne i Hercegovine	Sarajevo	Mis Irbina 5	033 213 723	
<b>Protection Fund of the Republic of Srpska</b> Zaštitni Fond Republike Srpske	Banja Luka	Solunska 10	051 226 091	

### KRA 1.3 - Capital market's surveillance capacity and compliance with standards improved

Institution	Town	Address	Tel/Fax	Web site
<b>Securities Commission of the Federation of Bosnia and Herzegovina</b> Komisija za vrijednosne papire Federacije Bosne i Hercegovine	Sarajevo	Čemaluša 9/II	033 203 862 033 211 655	www.komvp.gov.ba
<b>Securities Commission of the Republic of Srpska</b> Komisija za hartije od vrijednosti Republike Srpske	Banja Luka	Vuka Karadžića 6	051 218 362 051 218 361	www.sec.rs.ba
<b>The Sarajevo Stock Exchange – SASE</b> Sarajevska berza/burza vrijednosnih papira	Sarajevo	Đoke Mazalića 4	033 251 460 033 559 460	www.sase.ba
<b>Banja Luka Stock Exchange – BLSE</b> Banjalička berza hartija od vrijednosti	Banja Luka	Petra Kočića bb	051 326 041 051 326 056	www.blberza.com

### KRA 1.5: Deposit Insurance Agency's investment strategy, deposit threshold model, and deposit premiums updated

Institution	Town	Address	Tel/Fax	Web site
<b>Deposit Insurance Agency of Bosnia and Herzegovina (DIA)</b> Agencija za osiguranje depozita Bosne i Hercegovine	Sarajevo	Jadranska bb	033 663 095 033 220 308	www.aod.ba
	Banja Luka	Vase Pelagića 11a	051 223 440 051 223 452	

### KRA 1.6 Private Pension Fund Development Fostered

Institution	Town	Address	Tel/Fax	Web site
<b>Securities Commission of the Federation of Bosnia and Herzegovina</b> Komisija za vrijednosne papire Federacije Bosne i Hercegovine	Details are stated in KRA 1.3			
<b>Insurance Agency of the Republic of Srpska</b> Agencija za osiguranje Republike Srpske	Details are stated in KRA 1.2			
<b>Pension Reform Commission of the Federation of Bosnia and Herzegovina</b> Komisija za reformu penzionog sistema Vlade Federacije BiH	Sarajevo	Ložionička 2	033 723 131 033 723 200	

### KRA 1.7: Central Bank alignment with EU best practices improved

Institution	Town	Address	Tel/Fax	Web site
<b>Central Bank of Bosnia and Herzegovina (CBBH)</b> Centralna Banka Bosne i Hercegovine	Sarajevo	Maršala Tita 25	033 278 201 033 201 517	www.cbbh.ba

Institution	Town	Address	Tel/Fax	Web site
<b>Ministry of Finance and Treasury of Bosnia and Herzegovina</b> Ministarstvo finansija i trezora Bosne i Hercegovine	Sarajevo	Trg BiH 1	033 205 345 033 202 930	www.trezorbih.gov.ba
<b>Ministry of Finance of the Federation of Bosnia and Herzegovina</b> Ministarstvo finansija Federacije BiH	Sarajevo	Mehmeda Spahe 5	033 253 532 033 253 400	www.fmf.gov.ba
<b>Ministry of Finance of Republic of Srpska</b> Ministarstvo finansija Republike Srpske	Banja Luka	Vuka Karadžića 4	051 331 350 051 331 351	www.mf.vladars.net

## PIR 2: Financial Administration of Public Resources Improved

### KRA 2.1: Parliamentary committees overseeing public-sector audits enhanced

Institution	Town	Address	Tel/Fax	Web site
<b>Committee for Finance and Budget House of Representatives of BiH Parliamentary Assembly</b> Komisija za finansije i budžet Predstavničkog doma Parlamenta BiH	Sarajevo	Trg BiH 1	033 284 437 033 233 480	www.parlament.ba
<b>Committee for Finance and Budget House of Peoples of BiH Parliamentary Assembly</b> Komisija za finansije i budžet Doma naroda Parlamenta BiH	Sarajevo	Trg BiH 1	033 284 463 033 233 480	www.parlament.ba
<b>Joint Audit Committee - Parliament of the Federation of Bosnia and Herzegovina</b> Zajednička Komisija za reviziju Parlamenta Federacije Bosne i Hercegovine	Sarajevo	Hamdije Kreševljakovića 3	033 203 658	www.parlamentfbih.ba
<b>Audit Committee of the National Assembly of Republika Srpska</b> Odbor za reviziju Narodne Skupštine Republike Srpske	Banja Luka	Vuka Karadžića 2	051 338 115	www.narodnaskupstinars.net

### KRA 2.2 Public awareness of audit findings improved

Institution	Town	Address	Tel/Fax	Web site
<b>Audit Office of the Institutions of Bosnia and Herzegovina</b> Ured za reviziju institucija Bosne i Hercegovine	Sarajevo	Hamdije Čemerlića 2/XIII	033 703 573 033 703 565	
<b>Audit Office for the Institutions of the Federation of Bosnia and Herzegovina</b> Ured za reviziju institucija u Fedearciji Bosne i Hercegovine	Sarajevo	Ložionička 3	033 723 550 033 716 400	www.saifbih.ba
<b>The Supreme Office for the Republic of Srpska Public Sector Auditing</b> Glavna služba za reviziju javnog sektora Republike Srpske	Banja Luka	Vuka Karadžića 4	051 247 408 051 247 497	www.gsr-rs.org

### KRA 2.3 Pilot internal controls and audit units established

Institution	Town	Address	Tel/Fax	Web site
<b>City of Banja Luka</b> Grad Banja Luka	Banja Luka	Trg srpskih vladara 1	051 244 444 051 244 546	www.banjaluka.rs.ba
<b>IIA Institute of internal auditors of Bosnia and Herzegovina</b> Institut internih revizora Bosna i Hercegovina	Sarajevo	Dolina 2/II, Marijin Dvor	033 251 700 033 251 701	www.interni-revizori.info

### PIR 3: Enabling Environment for Private Sector Investment Improved

#### KRA 3.2: Capacity of financial services professional associations enhanced

Institution	Town	Address	Tel/Fax	Web site
<b>Association of Accountants, Auditors and Financial Professionals of the Federation of Bosnia and Herzegovina</b> Savez računovođa, revizora i finansijskih djelatnika u Federaciji Bosne i Hercegovine	Mostar	Kneza Višesalava 77 a	036 318 660 036 334 184	www.srr-fbih.org
<b>Association of Accountants and Auditors of the Republic of Srpska</b> Savez računovođa i revizora Republike Srpske	Banja Luka	1 Krajiškog korpusa 16/III	051 430 190 051 430 200	www.srrrs.org
<b>Association of Court Experts of the Republic of Srpska</b> Udruženje sudskih vještaka Republike Srpske	Banja Luka	Vladike Platona 3	<b>051 218 005</b> <b>051 218 005</b>	
<b>Association of Court Experts of the Federation of Bosnia and Herzegovina</b> Udruženje sudskih vještaka Federacije Bosne i Hercegovine	Sarajevo	Ložionička 12	<b>061 147 744</b> <b>033 650 301</b>	www.udruzenje-vjestaka.com
<b>Association of Leasing Companies of Bosnia and Herzegovina</b> Udruženje društava za leasing u Bosni i Hercegovini	Sarajevo	Zmaja od Bosne 4	<b>033 202 741</b> <b>033 202 741</b>	

## **ANNEX 3 – CASE STUDIES**



## CASE STUDY

### Establishing a Framework for Basel II Implementation

Bringing a consolidated approach to financial sector supervision in Bosnia and Herzegovina.



PARE's Basel II workshop was attended by senior representatives of the banking supervision agencies, the Central Bank of BiH, the Deposit Insurance Agency, and the Insurance Agency of BiH

*"We would like to express our joint satisfaction with PARE's assistance in our efforts to improve banking supervision and to meet requirements of European directives and Basel II, the new international framework for banking supervision."*

- Ms. Slavica Injac, Director of the Republika Srpska BSA and Mr. Mustafa Brkic, former Deputy Director of Federation of BiH BSA

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**CHALLENGE** Since 2006, there has been limited progress in consolidating financial sector reforms in BiH and the two banking supervision agencies (BSAs) had not received much support or assistance from any global or regional entities. Apart from periodic assistance and intermittent training with regional central banks, little support was provided to the agencies to make progress towards compliance with the original Basel Core Principles. Meanwhile, with regional integration occurring at a rapid pace in trade, investment, and the financial sector, the regulatory framework for banking and other financial services required additional focus to be able to close out the recommendations of the FSAP and to move forward with financial sector modernization. As the two banking supervision agencies grappled with FSAP recommendations, significant advances were made internationally towards a more refined framework for regulatory capital standards in international banking markets, also known as Basel II.

**INITIATIVE** Working with PARE, the banking supervision agencies and other stakeholders started to develop and implement a strategy for Basel II implementation in BiH. PARE's approach was to do a stock-taking of the situation relative to FSAP recommendations, devise a strategy and achieve consensus, and then to establish the modalities for working groups comprised of the relevant counterparts to assume specific responsibilities in moving the strategy forward.

**RESULTS** The PARE project succeeded in getting the two BSAs to achieve consensus and to draft identical comprehensive strategies for introducing the Basel II principles and release them in 2009. The strategies call on entity agencies to apply the core areas of Basel II applying to capital standards, supervisory review, and market discipline based on enhanced transparency and disclosure. This was achieved in broad consultation with the CBBH so that the CBBH and the BSAs increasingly coordinated in their surveillance, information sharing, and contingency planning. Additionally, the DIA and other inter-institutional groups including the insurance and securities regulators as well as other non-bank financial institutions were also closely associated with the strategic process which will help ensure the realization of a more consolidated approach to financial sector supervision in BiH.





## CASE STUDY

### Improving the Management of Public Funds

#### Enhancing the effectiveness of the public audit process



*Presidents of parliamentary committees with audit and financial oversight responsibilities and senior members from the three offices of the auditor generals in BiH attended PARE's workshop on parliamentary committee procedures for considering audit reports*

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**CHALLENGE** The legal framework for auditing in Bosnia and Herzegovina (BiH) was created in cooperation with international donors (including Swedish National Audit Office and Department for International Development) and adopted at the state and entity levels ensuring uniform auditing standards, introducing parliamentary oversight, and providing public availability of audit reports. However, the Supreme Audit Institutions (SAIs) and Parliamentary Audit Committees (PACs) on all levels of government in BiH face significant challenges in carrying out their responsibilities due to a lack of viable committee procedures, qualified support staff and appropriate media skills. These shortcomings are major impediments to having a successful public audit process in BiH.

**INITIATIVE** PARE is working in partnership with the SAIs and PACs in BiH to improve the capacity of the PACs responsible for audit report scrutiny of the state and entity level audit offices. The overall goal of PARE's strategy is to enable the PACs to use, analyze and oversee the implementation of audit recommendations across the public sector and to act upon recommendations in a coherent manner throughout the country. Additionally, PARE is working with the SAIs, PACs and journalists who report on audit findings to enhance the effectiveness of the public audit process through effective communication of audit findings and to increase public awareness and knowledge of audit findings.

**RESULTS** As a result of PARE's technical assistance, the Parliamentary Audit Committees have committed to act upon the audit offices' findings in a harmonized manner and to obtain a single set of legislation comprised of a book of rules, as well as guidelines and procedures for analyzing, deciding and implementing actions in response to audit findings. Moreover, with assistance from PARE, the PACs developed and adopted an action plan for the PACs to develop the previously mentioned set of legislation for managing their oversight responsibilities and for addressing specific audit findings and recommendations.



## CASE STUDY

### Improving Deposit Insurance Agency Reserve Fund

#### CREATING DIA INVESTMENT COMMITTEE



The DIA is an independent, non-profit legal entity established by the Law on Deposit Insurance in Banks of BiH. It is a permanent member of two international associations: International Association of Deposit Insurers ([IADI](#)) and European Forum of Deposit Insurers ([EFDI](#)).

*"DIA was transformed into a more efficient agency following USAID PARE project's technical assistance in 2008."*  
Mr. Kemal Kozarić,  
Governor of the Central Bank of BiH

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**CHALLENGE** The Deposit Insurance Agency's (DIA) manages a Reserve Fund (Fund) for protection of deposits of natural persons and legal entities in banks licensed by the banking supervision agencies in Bosnia and Herzegovina (BiH). The objective of the Fund is to provide cash to payout depositors of troubled banks in BiH. To honor this requirement the Fund needs to maintain a high degree of liquidity, quality, and capital preservation to ensure sufficient amount of liquid assets (cash) for the payout.

**INITIATIVE** In partnership with DIA the USAID PARE conducted an assessment of the existing asset management practices at the Agency as well as those of the Fund's asset manager. The assessment determined that (i) Investment Committee of the DIA Governing Board, mandated to advise on the safe and proper investments of the Fund's assets, needs to be established, (ii) the Fund's key investment policy documents, reports, and asset allocation policy need to be improved to reflect the principles of safety, liquidity, and capital preservation.

**RESULTS** The Investment Committee was formed from investment specialists from the DIA, banking supervision agencies and the Central Bank of BiH (CBBH) increasing the DIA Governing Board's capacity to make effective investment management decisions.

New and improved Investment Guidelines and Investment Policy Statement were developed to increase the safety, liquidity, and soundness of the DIA Reserve Fund.

The DIA was enabled to invest the Reserve Fund's assets in the EMU Central Banks' deposit facilities via the CBBH.

The Fund was restructured to allocate most of the assets into safe investments maintaining 96 percent of the portfolio liquid.<sup>9</sup> As a result, the soundness of the DIA Reserve Fund was secured and public confidence in the banking system was preserved.

<sup>9</sup> DB Advisors Report\_03.09, provided at the DIA Reserve Fund Review Meeting on 24 Mar 2009 - available to USAID upon request